

Financial Statements

**Montcalm Center
For Behavioral Health**

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Montcalm Center for Behavioral Health	County Montcalm
Fiscal Year End September 30, 2006	Opinion Date January 12, 2007	Date Audit Report Submitted to State February 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

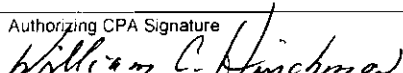
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123		
Street Address 308 Gratiot Avenue		City Alma	State MI	Zip 48801
Authorizing CPA Signature 		Printed Name William C. Hirschman		License Number 1101016179

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INDEPENDENT AUDITOR'S REPORT

Montcalm Center for Behavioral Health
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montcalm Center for Behavioral Health, as of and for the year ended September 30, 2006, which collectively comprise Montcalm Center for Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Montcalm Center for Behavioral Health's management. Our responsibility is to express an opinion on these financial statements based on our audit.

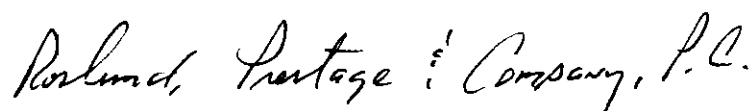
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Montcalm Center for Behavioral Health, as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2007 on our consideration of Montcalm Center for Behavioral Health's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montcalm Center for Behavioral Health's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 12, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Montcalm Center for Behavioral Health Management's Discussion and Analysis

For the year ended September 30, 2006

This section of the Montcalm Center for Behavioral Health (the Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

For fiscal year 2006, the source of Medicaid revenue continued to be the PIHP. In fiscal year 2003 the Michigan Department of Community Health (MDCH) began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. The Authority affiliated with Bay Arenac Behavioral Health Authority as the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid funding through the PIHP, rather than directly with the state. State General Fund revenue and other grants and earned contracts continue to be sourced directly from the state, in the Authority's capacity as a Community Mental Health Services Program (CMHSP).

Also, as of October 1, 2002, the beginning of fiscal year 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This Statement established new financial reporting requirements for state and local governmental units.

FINANCIAL HIGHLIGHTS

- Operating results show a surplus of \$88 thousand. Included in this result is a transfer to compensated absences of \$31 thousand to increase the total value of that liability to \$177 thousand as of September 30, 2006. Except for this issue, there would have been an operating surplus of \$119 thousand.
- Funds restricted for capital purposes increased by \$18 thousand related to the depreciation taken on capital assets for the year. At Fiscal Year end this fund balance is \$53 thousand.
- Funds restricted for risk management purposes decreased by \$104 thousand to adjust the risk fund amount to that prescribed in the MDCH/CMHSP Managed Mental Health Supports and Services Contract effective October 1, 2005. This contract is the means by which State General Fund dollars are received. This was a major change which allows only financing the risk based upon cost increases as a result of catastrophic increases in State Facility inpatient hospital placements and/or costs. This is based upon an analysis of the past five years of inpatient demand.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

- Unspent State General Fund formula funds to be lapsed back to MDCH were only \$2 thousand after creating a \$70 thousand carry forward of State General Fund formula funds to Fiscal Year 2007. This is a decrease of \$152 thousand compared to the prior year. A portion of this was due to a Section 236 transfer of \$100 thousand to other Community Mental Health Services Programs.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>(Decrease)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 2,118	\$ 2,127	\$ (9)	-0.4%
Restricted assets	248	303	(55)	-18.2%
Capital assets	125	127	(2)	-1.6%
Total assets	<u>2,491</u>	<u>2,557</u>	<u>(66)</u>	-2.6%
<u>Liabilities</u>				
Current liabilities	621	813	(192)	-23.6%
Noncurrent liabilities	177	146	31	21.2%
Total liabilities	<u>798</u>	<u>959</u>	<u>(161)</u>	-16.8%
<u>Net Assets</u>				
Investment in capital assets	125	127	(2)	-1.6%
Restricted for capital purposes	53	35	18	51.4%
Restricted for risk management	18	122	(104)	-85.2%
Unrestricted	1,497	1,314	183	13.9%
Total net assets	<u>\$ 1,693</u>	<u>\$ 1,598</u>	<u>\$ 95</u>	5.9%
Current Position	<u>\$ 1,497</u>	<u>\$ 1,314</u>	<u>\$ 183</u>	13.9%

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

The current financial position (excess of current assets over current liabilities) was a positive \$1,497 thousand, an increase of \$183 thousand or 14%, compared to the prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current assets included \$29 thousand due from the PIHP for a reduction in service costs paid to them under the local service area subcontract agreement. Also at year-end, current liabilities included \$72 thousand of unspent State General Fund formula funding. Of this amount \$2 thousand is included in current liabilities as amounts due to the state as lapse and the remaining \$70 thousand as deferred revenue to be carried forward to next year. This is a significant change from the previous year where \$229 thousand had been unspent. This change was due to a Section 236 transfer of \$100 thousand to other Community Mental Health Services Programs and an increase of \$57 in the use of State General Fund funding during the current fiscal year.

Restricted assets consist of cash and investments. These assets are restricted for capital purposes (funded depreciation), compensated absences, and risk management. Restricted assets of \$248 thousand have decreased by \$55 thousand or 18% from fiscal year 2005. The decrease (\$104 thousand) was due to the change in the determination of the amount permitted for risk management purposes under the MDCH contract for fiscal year 2006. The increases consist of an additional \$ 18 thousand for capital purposes and an additional \$31 thousand in the reserve for compensated absences.

Included in this category are assets restricted for capital purposes (funded depreciation). These are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2006, the Authority fully funded its annual depreciation expense of \$18 thousand, bringing the total balance through the end of fiscal year 2006 to \$53 thousand. Whereas GASB 34 recognizes \$69 thousand for depreciation in the current year, the Authority is only recognizing the amount chargeable to MDCH funds for the current year, which is \$18 thousand.

Also included are assets restricted to meet the obligation of earned but not utilized compensated absences of employees through the end of the fiscal year. This amount has increased by \$31 thousand, from \$146 thousand in fiscal year 2005 to \$177 thousand in fiscal year 2006.

The remaining assets restricted for risk management are related to the risk obligations of the State General Fund (formula funds) risk contract maintained directly with the state. Amounts funded to this account in prior years, together with current year interest

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

earnings, and a revision in the MDCH contract effective October 1, 2005 as to the computation of the amount to be carried in this account, required reducing the funding of this account by \$104 thousand during fiscal year 2006. At year-end, the balance in this account was \$18 thousand, its contractual maximum based only upon the past five year demand history for State Facility inpatient hospital placements. This has reduced the account by 85% from fiscal year 2005.

Capital assets consist of property and equipment having an estimated useful life of more than one year and original cost in excess of \$5 thousand. These were previously reported in the general fixed asset account group. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. Capital assets in the amount of \$65 thousand were acquired in fiscal year 2006. The net value of capital assets has decreased by \$2 thousand due to increases to accumulated depreciation and the disposal of equipment during the year, resulting in a net value of \$125 thousand.

As of year-end, the net book value of capital assets was 13% of the original book value compared to 14% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$1,497 thousand, an increase of \$183 thousand or 14% for the year. Unrestricted net assets were 60% of total assets, up from 51% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2006 and 2005.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

Summary of Activities

For the years ended September 30, 2006 and 2005

(In \$000s)

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
<u>Revenue</u>				
Medicaid specialty supports and services	\$ 5,138	\$ 5,218	\$ (80)	-1.5%
State general fund priority populations	1,410	1,353	57	4.2%
Adult Basic Waiver	227	189	38	
Program service revenue	39	75	(36)	-48.0%
Grants and earned contracts	80	111	(31)	-27.9%
County appropriation	188	188	-	0.0%
Interest income	87	53	34	64.2%
Other local income	2	2	-	0.0%
Total revenue	<u>7,171</u>	<u>7,189</u>	<u>(18)</u>	-0.3%
<u>Expense</u>				
Personnel expense	2,868	2,692	176	6.5%
Operating expense	4,027	4,206	(179)	-4.3%
Local funds contributed to State	95	95	-	0.0%
Depreciation	69	25	44	176.0%
Total expense	<u>7,059</u>	<u>7,018</u>	<u>41</u>	0.6%
Excess of revenue over expense	<u>112</u>	<u>171</u>	<u>(59)</u>	-34.5%
Transfer from (to) compensated absences	(31)	6	(37)	
Transfer to Affiliate and MDCH	-	(295)	295	
Prior Period Adjustment	7	-	7	
Change in net assets	<u>\$ 88</u>	<u>\$ (118)</u>	<u>\$ 206</u>	-174.6%

Excess of revenue over expenses from activities for the current year was a surplus of \$112 thousand or 1.6% of revenue. This is a decrease of \$59 thousand from the prior year surplus of \$171 thousand or 2.4% of prior year revenue.

Revenue for the year was \$7.171 million, a decrease of \$18 thousand or .25% from the prior year.

Medicaid specialty supports and services revenue of \$5.1 million represents 71.6% of total revenue, a decrease of 1.0% from 72.6% of total revenue in the prior year. It further represents a decrease of \$80 thousand over the previous year. As began in fiscal year 2003, the source of Medicaid specialty supports and service revenues transferred from MDCH to a subcontract with the PIHP. This subcontract is on a net

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

cost not to exceed basis. Excess Medicaid subcontract funds received during the fiscal year and due to the PIHP of \$22 thousand are not included as revenue but is shown as amounts due to the PIHP as discussed above.

State general fund priority population revenue (formula funding) of 1.4 million represents 19.7% of total revenue and increased \$57 thousand or 4.2% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$75 thousand of prior year deferred revenue. Unspent current year funds of \$72 thousand are not included in current revenue. Of this amount \$2 thousand is shown as a current liability due to be lapsed to MDCH and the remaining \$70 thousand is shown as deferred revenue available for next year.

Adult Basic Waiver revenue (capitation funding) of \$227 thousand represents 3.2% of total revenue. Beginning on October 1, 2003 the Department of Community Health initiated a new program to replace the State Medical Program with the Adult Benefits Waiver, authorized under Title XXI of the Social Security Act. The authority receives capitation at the rate of \$53.77 per month for each Montcalm County resident enrolled in the program. Any unused funds at the end of the fiscal year are available in the subsequent fiscal years and treated as local funds. During fiscal year 2006 \$74 thousand of these funds were actually expensed, leaving \$153 thousand available for local funding uses in subsequent fiscal years.

Program service revenue of \$39 thousand consists of charges for services provided to consumers not covered by Medicaid risk contracts. This amount represents fees collected from consumers, Medicare and private insurance on a cash basis. These funds are eligible to be used as local match funding for State General funds under Public Act 423. Consumers are subject to an assessed monthly ability to pay for services received based upon income. These represent .5% of total revenue and have decreased \$36 thousand or 48% from the prior year. The reduction is due to a decrease in the amount of services provided that is covered by insurance and in collections of consumer ability to pay amounts.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1.1% of total revenue and have decreased \$31 thousand or 28% over the prior year. The reduction is due to the termination of Block Grant funding for the Drop In Center in fiscal year 2006.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3.9% of revenue and have increased \$34 thousand or 14% from the prior year. The county appropriation was unchanged. The entire increase was due to the rise in interest rates during fiscal year 2006.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2006

Total expense of \$7.1 million has increased \$41 thousand or .6% compared to the prior year. Personnel expense is 40.6% of total expense and has increased \$176 thousand or 6.5%. Operating expense is 57% of total expense and has decreased \$179 thousand or 4.2%.

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good.

Management expects revenues to be flat at best. As was indicated in the Financial Highlights section, the amount of lapsed State General Funds is down to almost zero. The Authority was able to generate the maximum amount of Carryforward of State General Funds to fiscal year 2007. However if this trend continues, the Authority's ability to generate State General Fund Carryforward funding for subsequent years is expected to be greatly diminished.

Management is currently evaluating the definition as well as the allocation of administrative costs which may increase the amount of costs allocated to those services funded with State General Fund dollars. This will put additional pressure on those funds without any realistic expectations of additional funding available to meet these needs.

Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$2,003,282	\$1,883,652
Accounts receivable, net	5,309	5,739
Due from other governmental units	13,136	72,206
Prepaid expenses	96,545	165,062
Total current assets	2,118,272	2,126,659
Noncurrent assets		
Cash and cash equivalents - restricted	247,727	302,961
Capital assets - depreciable, net	125,013	127,184
Total noncurrent assets	372,740	430,145
Total assets	2,491,012	2,556,804
Liabilities		
Current liabilities		
Accounts payable	350,510	449,137
Accrued wages and other payroll liabilities	95,254	89,514
Due to other governmental units	105,245	198,923
Deferred revenue	69,703	75,469
Noncurrent liabilities		
Compensated absences	177,095	146,248
Total liabilities	797,807	959,291
Net Assets		
Invested in capital assets, net of related debt	125,013	127,184
Reserved for risk management	17,937	121,682
Reserved for capital purposes	52,695	35,031
Unrestricted	1,497,560	1,313,616
Total net assets	\$1,693,205	\$1,597,513

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets	
		Charges for Services	Operating Grants and Contributions	2006	2005
Governmental activities					
Health & Welfare - Mental Health	<u>\$6,995,169</u>	<u>\$5,176,662</u>	<u>\$1,906,894</u>	\$88,387	\$121,898
General revenues					
Unrestricted investment earnings				87,769	53,161
Restricted investment earnings				5,295	2,009
Gain on disposal of fixed assets				<u>1,521</u>	<u>-</u>
Total general revenues and contributions				94,585	55,170
Transfers to affiliates and MDCH				<u>(94,937)</u>	<u>(295,025)</u>
Change in net assets				88,035	(117,957)
Net assets - beginning of year				1,597,513	1,832,596
Prior period adjustment				<u>7,657</u>	<u>(117,126)</u>
Net assets - end of year				<u>\$1,693,205</u>	<u>\$1,597,513</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

MONTCALM CENTER FOR BEHAVIORAL HEALTH
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$2,003,282	\$1,883,652
Accounts receivable, net	5,309	5,739
Due from other governmental units	13,136	72,206
Prepaid expenses	96,545	165,062
Cash and cash equivalents - restricted	229,790	181,279
Total assets	\$2,348,062	\$2,307,938
Liabilities		
Accounts payable	\$350,510	\$449,137
Accrued wages and other payroll liabilities	95,254	89,514
Due to other governmental units	105,245	198,923
Deferred revenue	69,703	75,469
Total liabilities	620,712	813,043
Fund balance		
Reserved for prepaid expenses	96,545	165,062
Reserved for capital purposes	52,695	35,031
Unreserved	1,578,110	1,294,802
Total fund balances	1,727,350	1,494,895
Total liabilities and fund balances	\$2,348,062	\$2,307,938

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total fund balance - governmental funds	\$1,727,350
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	933,683
Deduct: Accumulated depreciation	(808,670)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund	17,937
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: Compensated absences	<u>(177,095)</u>
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Net assets of governmental activities	<u><u>\$1,693,205</u></u>
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The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

REVENUES	General Fund	
	2006	2005
State grants		
State general fund - DCH contract	\$1,409,977	\$1,353,386
Adult Benefit Waiver	227,071	189,002
MI child	11,313	11,952
MDCH grants	12,303	-
Title XX	1,845	1,845
Total state grants	1,662,509	1,556,185
Federal grants		
Runaway grant	-	31,808
Drop in center grant	-	42,583
PAS / ARR grant	12,856	9,303
Total federal grants	12,856	83,694
Contributions - local units		
Local funding	188,053	188,053
Charges for services		
Medicaid - affiliate contract	5,137,649	5,218,403
Client and third party pay	39,013	75,115
Total charges for services	5,176,662	5,293,518
Interest and rents		
Interest	87,769	53,161
Other revenue		
Miscellaneous	43,475	13,922
Total other revenue	43,475	13,922
Total revenues	7,171,324	7,188,533

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel expenditures	\$2,868,160	\$2,691,740
Operating expenditures	4,027,010	4,302,335
Capital outlay	65,459	-
Total expenditures	6,960,629	6,994,075
Excess of revenues over expenditures	210,695	194,458
Other financing sources (uses)		
Transfer to affiliates and MDCH	(94,937)	(295,025)
Operating transfers in (out) - internal service fund	109,040	(16,441)
Excess of revenues and other sources over expenditures and other uses	224,798	(117,008)
Fund balance, beginning of year	1,494,895	1,604,962
Prior period adjustment	7,657	6,941
Fund balance, end of year	<u>\$1,727,350</u>	<u>\$1,494,895</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$224,798
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	65,459
Deduct: Depreciation expense	(69,152)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	5,295
Deduct: Transfers in from the governmental internal service fund	(109,040)
Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues and expenditures in the funds.	
Add: Gain on disposal of fixed assets	1,521
Deduct: Increase in accrual for compensated absences	(30,846)
Change in net assets of governmental activities	<u>\$88,035</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Assets		
Cash and cash equivalents	<u>\$17,937</u>	<u>\$121,682</u>
Net assets		
Restricted for risk management	<u>\$17,937</u>	<u>\$121,682</u>
Total liabilities and net assets	<u>\$17,937</u>	<u>\$121,682</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Non-operating revenue		
Interest income	\$5,295	\$2,009
Operating transfers		
Operating transfers in (out) - general fund	(109,040)	16,441
Net income	(103,745)	18,450
Retained earnings, beginning of year	121,682	103,232
Retained earnings, end of year	<u>\$17,937</u>	<u>\$121,682</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Cash flow from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers in (out) - general fund	(\$109,040)	\$16,441
Cash flows from investing activities		
Proceeds from interest earnings	5,295	2,009
Net increase (decrease) in cash and cash equivalents	(103,745)	18,450
Cash and cash equivalents, beginning of year	121,682	103,232
Cash and cash equivalents, end of year	<u>\$17,937</u>	<u>\$121,682</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Montcalm Center for Behavioral Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Montcalm who meet eligibility and other criteria.

As the community mental health services provider for Montcalm County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority.

Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Montcalm Center For Behavioral Health Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund account is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Bay-Arenac CMH Authority and the State of Michigan.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Vehicles	5
Equipment & Furniture	5
Computers	5
Building Improvements	2 - 11
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability as well as future improvements and/or acquisition of major capital assets. Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH.

These restricted assets are held in a separate cash account with local financial institutions.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Montcalm County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through Access Alliance of Michigan for Medicaid-qualified services rendered to residents of Montcalm County. Access Alliance of Michigan serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Montcalm County and they contract with the MDCH to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

	2006	2005
Petty cash	\$500	\$299
Checking, money market, and savings accounts	768,505	952,694
Certificates of deposit	1,234,277	930,659
Certificates of deposit - restricted	247,727	302,961
Total	\$2,251,009	\$2,186,613

Restricted Cash

The Authority holds, in a separate bank account, funds restricted to payment of compensated absences as they come due. Cash has also been restricted for future improvements and/or acquisition of major capital assets. Cash and cash equivalents in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract. The restricted cash shown above represents cash and cash equivalents restricted for the following:

	2006	2005
Compensated Absences	\$177,095	\$146,248
Risk Reserve – Internal Service Fund	17,937	121,682
Capital Purchases	52,695	35,031
Total	\$247,727	\$302,961

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$1,954,215 of the Authority's \$2,354,215 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From	2006	2005
State of Michigan - OBRA	\$2,842	\$1,679
State of Michigan - Runaway Grant	999	3,120
State of Michigan – Drop In Grant	1,265	3,413
Bay-Arenac CMH Authority	7,318	63,451
Other	712	543
Total	\$13,136	\$72,206

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expense	2006	2005
Insurance	\$35,783	\$37,797
Rent	-	65,000
Pension	41,527	39,119
Dues	7,734	7,184
Other	11,501	15,962
Total	\$96,545	\$165,062

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Vehicles	\$144,634	\$38,729	-	\$183,363
Equipment & Furniture	393,722	-	(\$5,408)	388,314
Computers	229,814	19,658	(18,994)	230,478
Building Improvements	124,456	7,072	-	131,528
Sub-total	892,626	65,459	(24,402)	933,683
ACCUMULATED DEPR:				
Vehicles	(131,639)	(16,868)	-	(148,507)
Equipment & Furniture	(373,933)	(14,359)	5,408	(382,884)
Computers	(182,546)	(31,134)	20,515	(193,165)
Building Improvements	(77,324)	(6,790)	-	(84,114)
Sub-total	(765,442)	(69,152)	25,923	(808,670)
NET CAPITAL ASSETS	\$127,184	(\$3,692)	\$1,521	\$125,013

Depreciation expense in the amount of \$69,152 was charged to Health and Welfare – Mental Health Program.

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes. The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2006 and 2005 was \$52,695 and \$35,031, respectively.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2006	2005
State of Michigan – Cost Settlement	\$1,777	\$154,496
Inpatient / Residential Facilities	\$103,468	44,427
Total	\$105,245	\$198,923

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2006	2005
General Fund Carryforward	\$69,703	\$75,469

Operating Leases

Montcalm Center for Behavioral Health has entered into operating leases for the use of real property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of the end of the current fiscal year:

Year Ending September 30 th	Annual Cost
2007 - 2012	\$130,000
2013	65,000

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Long-Term Debt

Compensated Absences

Authority policy allows employees to accumulate up to one year's allowance of vacation pay and to carry this accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when vacations are actually taken, upon election to receive a cash payment equal to 50% of one year's vacation earned, or upon termination of employment.

Sick pay can be accumulated up to 90 days and can be carried for an indefinite time into the future. Upon death or retirement, sick leave benefits are paid to an employee in the amount of 50% of the number of sick hours accumulated multiplied by their hourly pay rate. However, upon termination of employment, all sick leave benefits are forfeited.

The liability recorded for compensated absences includes amounts for the related retirement and FICA.

Reserves and Designations

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

A portion of net assets has been reserved to be used for future improvements and/or acquisition of major capital assets.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

Prior Period Adjustments

Prior period adjustments shown in the statement of activities in this report represent the adjustment to fund balance due to the following:

Adjustment	2006	2005
Adjustments to cost settlement – 9/30/04	-	\$3,016
Adjustments to net capital assets beginning balance	-	(136,894)
Other	\$7,657	16,752
Total	\$7,657	(\$117,126)

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Transfers Between Funds

The Authority transferred \$109,040 from the Internal Service Fund to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 4. OTHER INFORMATION

Pension Plan

Plan Description

The Montcalm Center for Behavioral Health Pension Plan (the "Plan") was adopted effective as of September 30, 1998 to provide retirement benefits for eligible employees. The County of Montcalm on behalf of the Authority initially adopted this defined benefit retirement plan and the provisions of this plan are designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended. Each employee is eligible to be a member of this plan if they work 1000 hours or more in a calendar year. The plan provides for normal retirement at age 60 with 10 years of plan participation. Early retirement is available with a minimum age of 55 and minimum service of 25 years.

The normal retirement benefit is a monthly pension payable in an amount equal to 2% of monthly effective compensation in excess of social security covered compensation multiplied by years of service not to exceed 25 years, plus 1% of monthly effective compensation multiplied by years of service greater than 25. The normal retirement benefit is based on the effective compensation during the highest 5 consecutive years in the 10 years immediately prior to retirement. If retirement begins with less than 5 years of service, the benefit is based on the effective compensation during all years of service.

Effective compensation for a plan year is the compensation for the January 1 to December 31 period. Overtime compensation, bonuses, commissions, and any other extraordinary remuneration are counted. Commissions are averaged over one year. Vesting occurs after 5 years of participation. Periodic contributions are made to the trustee of the plan (Macatawa Bank) to cover the pension obligation of the employee's of the Authority.

Funding Policy

The amount of employer contributions is determined on a yearly basis. For the year ending December 30, 2006, employer contributions to this retirement plan was \$156,464 and employee contributions were \$72,540.

Additional information about this plan can be requested by writing to: Watkins, Ross & Company, 161 Ottawa Avenue, NW, Suite 505, Grand Rapids, Michigan, 49503-2769.

FICA Alternative / Money Purchase Plan

Plan Description

Effective June 1, 1999, the Authority adopted an alternative social security plan. Employee contributions consisting of 6.2% of wages were equally matched by the Authority. The provisions of the Plan were designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code. Contributions were made to this Plan through October, 2003.

On October 28, 2003 the Authority held an employee referendum on the continuance of the alternative social security plan. By a vote of 28 to 12 the employees voted to return to the Social Security program. At the time of the next payroll, on November 7, 2003, contributions to the Plan ceased and were made instead to Social Security. All remaining funds in the Plan, which were 100% employee vested, were distributed on April 7, 2004 either as a taxable distribution of the funds or as a rolled over balance to other qualified plans.

Funding Policy

The employee's contribute 6.2% of their wages which is deducted from their pay. The Authority's matches this amount.

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Amounts received or receivable from the granting agencies or third-party payers are subject to audit and adjustment by grantor agencies or fiscal intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor or, of excess reimbursements as determined by a fiscal intermediary, cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages its risk exposures and provides certain employee benefits through a combination of self-insurance, risk management pools and commercial insurance. Coverage provided by pools and commercial carriers has not changed significantly and there have been no claims paid in excess of insured limits in the past three years.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

The Authority participates in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the note below.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all cost, including damages, indemnification, and allocated loss adjustment expenses, for each occurrence that is within the member's self-insured retention. If a covered loss exceeds the MMRMA's limits, all further payments for such loss are the sole obligation of the Authority.

The Authority's coverage limits include \$5,000,000 for liability, \$1,479,481 for buildings and personal property, and \$1,500,000 for vehicle damage.

The Authority also has approximately \$17,937 in a shared risk arrangement with the Michigan Department of Community Health.

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final		
REVENUES				
State grants				
State general fund - DCH contract	\$1,616,373	\$1,579,919	\$1,409,977	(\$169,942)
Adult benefit waiver	180,000	180,000	227,071	47,071
MI child capitation	12,000	12,000	11,313	(687)
MDCH Grants	13,730	13,730	12,303	(1,427)
Title XX	1,845	1,845	1,845	-
Total state grants	1,823,948	1,787,494	1,662,509	(124,985)
Federal grants				
Runaway grant				-
Drop In Center grant				-
PAS / ARR grant	7,800	7,800	12,856	5,056
Total federal grants	7,800	7,800	12,856	5,056
Contributions - local units				
Local funding	188,053	188,053	188,053	-
Charges for services				
Medicaid - affiliate contract	5,526,918	5,665,690	5,137,649	(528,041)
Client and third party pay	60,000	60,000	39,013	(20,987)
Total charges for services	5,586,918	5,725,690	5,176,662	(549,028)
Interest and rents				
Interest	50,000	50,000	87,769	37,769
Other revenue				
Miscellaneous	51,904	51,904	43,475	(8,429)
Total other revenue	51,904	51,904	43,475	(8,429)
Total revenues	7,708,623	7,810,941	7,171,324	(639,617)

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2006

EXPENDITURES	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final		
Health & Welfare - Mental Health				
Personnel expenditures	\$3,173,212	\$3,063,170	\$2,868,160	\$195,010
Operating expenditures	4,182,503	4,514,707	4,027,010	487,697
Capital outlay	12,516	20,054	65,459	(45,405)
Total expenditures	7,368,231	7,597,931	6,960,629	637,302
Excess of revenues over expenditures	340,392	213,010	210,695	(2,315)
Other financing sources (uses)				
Operating transfers in (out) - affiliates	(94,937)	(94,937)	(94,937)	-
Operating transfers in (out) - internal service fund	-	-	109,040	109,040
Excess of revenues and other sources over expenditures and other uses	245,455	118,073	224,798	106,725
Fund balance, beginning of year	1,494,895	1,494,895	1,494,895	-
Prior period adjustment	-	-	7,657	7,657
Fund balance, end of year	<u>\$1,740,350</u>	<u>\$1,612,968</u>	<u>\$1,727,350</u>	<u>\$114,382</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Personnel expenditures		
Salaries and wages	\$2,192,499	\$2,063,628
Fringe benefits	669,997	622,826
Board per diem	<u>5,664</u>	<u>5,286</u>
 Total personnel expenditures	 <u>\$2,868,160</u>	 <u>\$2,691,740</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Operating expenditures		
Accounting and auditing	\$15,157	\$13,952
Alliance and affiliation expense	-	8,328
Client transportation	64,959	67,291
Clinical services contracts	158,016	157,015
Community hospital inpatient	187,388	477,508
Consultants	43,293	31,868
Consumer compensation, conferences, travel	8,558	-
Contractual program expense	905,650	861,671
Dues	14,223	13,155
Equipment rental	1,031	1,021
Insurance and licenses	31,404	28,518
Janitorial supplies	5,431	4,404
Legal and consulting	43,413	-
MDCH state facilities - local	22,150	52,554
MDCH state facilities - state	402,934	250,780
Miscellaneous	13,739	161,481
Non-matchable expense	-	94,937
Repairs and maintenance	41,597	29,186
Printing and publishing	-	6,462
Public relations and advertising	19,317	25,657
Purchased services	17,000	-
Recruitment	7,567	13,835
Rent	148,416	148,357
Rent payment - residential homes	73,733	79,897
Software licenses maintenance	19,593	-
Residential placement	1,416,740	1,407,972
Small equipment	15,424	28,138
Staff development	35,835	39,553
Conference and travel	40,135	31,370
Supplies, postage, other operating expenses	71,565	52,237
Supported employment - janitorial service	24,332	21,889
Telephone and communications	73,559	72,166
Temporary office help	3,455	2,542
CMC administration	54,874	79,060
Utilities	29,028	27,472
Vehicle expenses	17,494	12,059
	<u>\$4,027,010</u>	<u>\$4,302,335</u>
Total operating expenditures		

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Montcalm Center for Behavioral Health
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montcalm Center for Behavioral Health (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

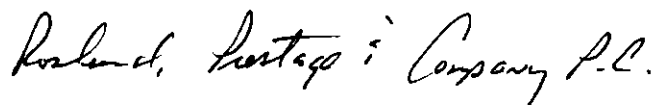
In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 12, 2007.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 12, 2007



MANAGEMENT LETTER

Board of Directors
Montcalm Center For Behavioral Health
Stanton, Michigan

In planning and performing our audit of the financial statements for Montcalm Center For Behavioral Health for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 12, 2007 on the financial statements of Montcalm Center for Behavioral Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 12, 2007

Montcalm Center for Behavioral Health
Management Letter

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented some of the recommendations we included in our previously issued Management Letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

Depreciation Schedule

Prior Year Comment and Recommendation

During our review of fixed assets we also found that the Authority does not have a computerized system in place specifically designed for fixed asset recordkeeping and for calculating depreciation.

We recommend that the Board consider using a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.

Current Status

The recommendation we suggested in our previously issued Management Letter has not been implemented as of the date of this report.

Management Response

We believe we have an acceptable method using Microsoft Access, which keeps track of each asset.

CURRENT YEAR COMMENTS

Bank Reconciliations

During our review of bank accounts we found that the individuals responsible for preparation and review of the bank reconciliations are not signing (or initialing) and dating the reconciliations when completed.

Montcalm Center for Behavioral Health
Management Letter

We recommend that all bank reconciliations be signed (or initialed) and dated when completed and again when reviewed. This will help identify the responsible persons, document the segregation of duties, and document that there is an adequate level of oversight.

Management Response

Management agrees that this process should be done and has taken steps to implement this recommendation.